



Annual Report
FIRST NATIONAL STORES INC.
year ending

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March 29, 1947

FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFFE, <i>President</i>	RALPH F. BURKARD, <i>Treasurer</i>
JAMES C. DUANE	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS	MORRIS JOSELOFF
CHARLES H. BURGER	SAMUEL JOSELOFF
RALPH F. BURKARD	JOHN L. MACNEIL
JAMES C. DUANE	JAMES J. O'HARE
BYRON M. FLEMMING	ARTHUR O'KEEFFE

Somerville, Massachusetts, August 6, 1947.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 29, 1947 is presented herewith.

The figures given in this report are comparable with those of the prior year as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this report.

Results of our operations show an increase in sales of 40.84% over the previous fiscal year. After deducting taxes of \$4,600,000 and an appropriation for future payments of past service liability of \$1,885,000 (after taxes) for employees retirement benefits under amended pension plan which is submitted to stockholders for approval in the accompanying proxy and proxy letter, your company earned \$5,357,235, equivalent to \$6.54 per common share. This compares with a net profit after taxes in the previous fiscal year amounting to \$3.52 per share.

The following is a condensed summary of operations for the fiscal year ending March 29, 1947, compared with operations for the fiscal year ending March 30, 1946.

	<i>For the Fiscal Year Ending</i>	
	<i>March 29, 1947</i>	<i>March 30, 1946</i>
Retail stores sales	\$256,506,910	\$182,131,241
Net profits after taxes, depreciation and all charges and available for dividends	\$5,357,235	\$2,885,555
Earnings per share of common stock (on shares outstanding at end of year)	\$6.54	\$3.52
	<i>As of</i>	
	<i>March 29, 1947</i>	<i>March 30, 1946</i>
Net working capital (current assets less current liabilities)	\$19,898,334	\$18,000,792
Fixed or property assets (less depreciation)	\$9,794,848	\$8,642,538
Net worth	\$29,971,948	\$27,070,417
Earned Surplus	\$23,235,669	\$20,334,138

On the following page are graphic charts which show the results of our operations for the past twenty-one years.

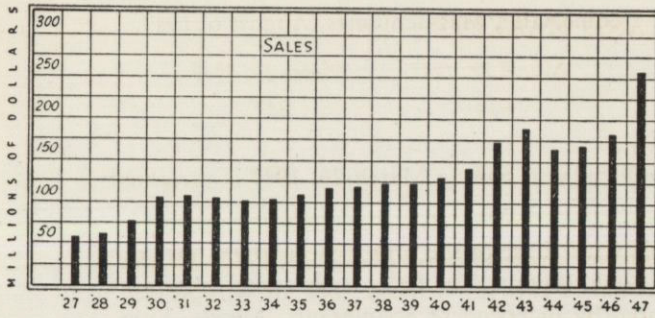
DEPRECIATION CHARGES AND MAINTENANCE CHARGES

	<i>Fiscal Years</i>		
	<i>1947</i>	<i>1946</i>	<i>1945</i>
Depreciation charges	\$997,774	\$936,823	\$962,360
Maintenance repairs and renovation charges	\$1,895,765	\$1,589,847	\$1,254,005

The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance repairs and renovation of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

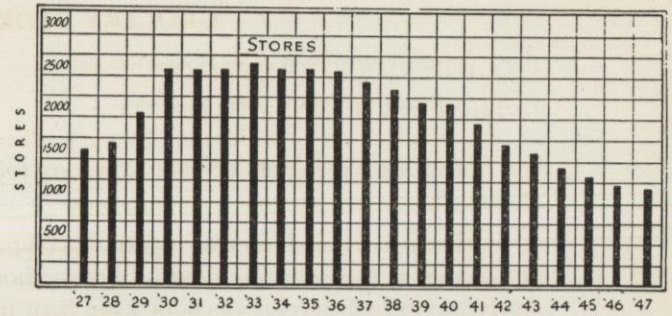
DIVIDENDS PAID

For the fiscal year ending March 29, 1947 four quarterly dividends of 62½ cents a share and a special dividend of 50 cents a share totalling \$3.00 were paid on the common stock outstanding.



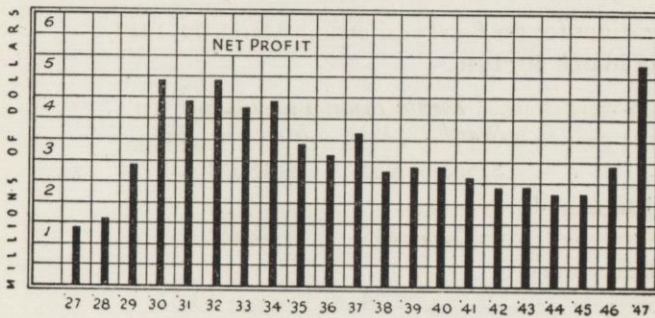
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1934	\$105,812,781	1941	\$142,680,921
1928	64,445,962	1935	111,323,463	1942	174,378,932
1929	75,884,639	1936	119,575,417	1943	187,839,592
1930	107,635,216	1937	120,682,961	1944	164,924,978
1931	108,196,686	1938	124,294,617	1945	170,236,678
1932	107,634,383	1939	124,222,955	1946	182,131,241
1933	100,892,947	1940	131,041,157	1947	256,506,910



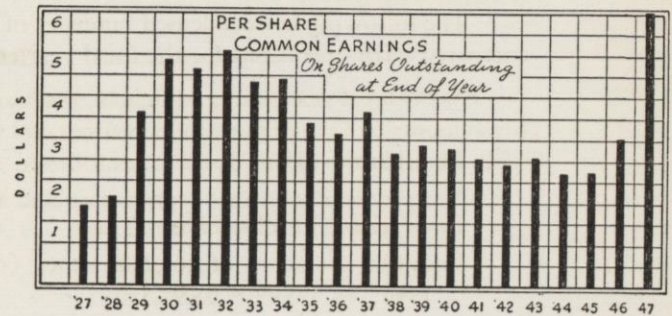
Stores—Fiscal Years

1927	1681	1934	2653	1941	1923
1928	1717	1935	2623	1942	1748
1929	2002	1936	2556	1943	1585
1930	2549	1937	2473	1944	1463
1931	2548	1938	2350	1945	1340
1932	2546	1939	2244	1946	1236
1933	2705	1940	2137	1947	1201



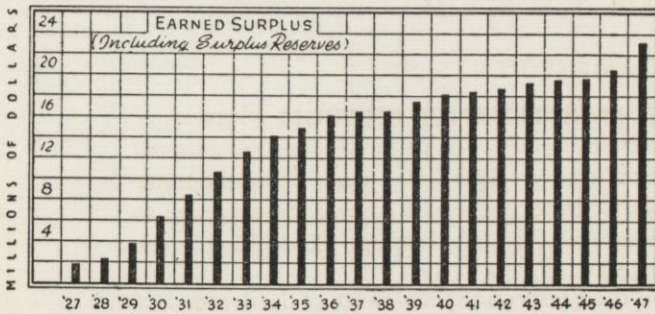
Net Profits—Fiscal Years

1927	\$1,492,193	1934	\$4,394,830	1941	\$2,508,719
1928	1,593,358	1935	3,433,504	1942	2,380,294
1929	2,904,884	1936	3,163,329	1943	2,465,079
1930	4,773,446	1937	3,647,001	1944	2,235,104
1931	4,479,108	1938	2,705,191	1945	2,294,604
1932	4,825,611	1939	2,774,366	1946	2,885,555
1933	4,220,099	1940	2,739,074	1947	5,357,235



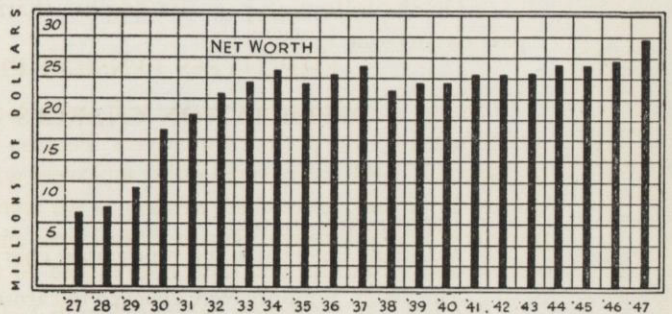
Per Share Common—Fiscal Years

1927	\$1.92	1934	\$4.97	1941	\$3.06
1928	2.09	1935	3.89	1942	2.90
1929	4.07	1936	3.65	1943	3.01
1930	5.39	1937	4.24	1944	2.73
1931	5.03	1938	3.14	1945	2.80
1932	5.52	1939	3.38	1946	3.52
1933	4.78	1940	3.34	1947	6.54



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1934	\$14,213,494	1941	\$18,572,964
1928	2,238,303	1935	15,121,448	1942	18,889,476
1929	3,987,782	1936	16,062,827	1943	19,308,135
1930	6,369,726	1937	16,670,118	1944	19,496,819
1931	8,371,910	1938	16,688,036	1945	19,745,003
1932	10,816,321	1939	17,423,131	1946	20,334,138
1933	12,666,672	1940	18,112,565	1947	23,235,669



Net Worth—Fiscal Years

1927	\$8,723,782	1934	\$26,190,916	1941	\$25,293,286
1928	8,965,710	1935	24,820,470	1942	25,625,755
1929	11,724,410	1936	25,761,849	1943	26,044,414
1930	18,347,148	1937	26,369,140	1944	26,233,098
1931	20,349,333	1938	23,746,089	1945	26,481,282
1932	22,793,743	1939	24,216,168	1946	27,070,417
1933	24,644,049	1940	24,874,883	1947	29,971,948

GROCERY STORES AND MARKETS

Your Company had in operation on	<i>March 29, 1947</i>	<i>March 30, 1946</i>
Grocery Stores	814	847
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	387	389
Total Grocery Stores and Markets	1,201	1,236

As of March 29, 1947, we had in operation 35 fewer stores than on March 30, 1946. Of the 814 grocery stores, 242 are of the Self-Service type and of the 387 markets, 271 are Self-Service markets. Your Company plans to construct additional large stores of the Self-Service type upon land previously acquired for that purpose.

BANK LOAN

During the past fiscal year we paid \$640,000 on our loan with the First National Bank of Boston, and the final balance of \$800,000 was paid on May 9, 1947. This loan, originally for \$4,000,000 was made on May 11, 1942, and called for semi-annual payments of \$320,000 each and the balance on May 9, 1947.

TAXES

For the fiscal year ending March 29, 1947 earnings were charged with direct taxes of \$6,161,202. This amounts to 53% of our profits before taxes for the year or \$7.53 for each share of our Common Stock. A summary of our direct taxes follows.

<i>Fiscal Year</i>	<i>Total Direct Taxes</i>	<i>% of Income (before taxes)</i>	<i>Per Share On Common</i>	<i>Per Store Operated</i>
1947	\$6,161,202	53%	\$7.53	\$5,130
1946	6,194,310	68%	7.56	5,011
1945	4,776,961	67%	5.83	3,564
1944	4,374,410	66%	5.34	2,990
1943	4,779,787	66%	5.84	3,015
1942	2,647,530	52%	3.23	1,514
1941	2,002,231	44%	2.44	1,041
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

EMPLOYEES PENSION PLAN AMENDMENTS, ETC.

In the accompanying proxy and proxy letter to stockholders, approval of the adoption of amendments to our present Employees' Pension Plan is requested. The original plan was adopted on March 1, 1944 and covered only employees with earnings over \$3,000.00 a year. It has been our earnest hope and desire that, as soon as we were able to do so, we would extend the coverage to provide entrance into the plan to all full time employees who have attained age 30 and have given us five years of service and have not reached 70 years and 6 months of age.

We have 34 employees who on March 1, 1947 were 70 years and six months of age and over. These employees are beyond the age where it would be practical to include them in a general pension plan. As soon as approval of stockholders and the Treasury Department is obtained, your management intends to pension these employees separately and their benefits will be determined in accordance with the general pension plan when amended.

The good results of our operations for the past fiscal year were sufficient to enable us to make provision for the cost of these pensions, as to past service liability, by an appropriation of \$1,885,000

(after taxes) from the earnings as noted on the accompanying Profit & Loss Statement included in this report. Future service liability, under these amendments, according to the estimates of our actuary, will call for an expenditure of approximately \$604,326 annually before taxes or \$374,682 annually after taxes at present rates.

We firmly believe that the interests of the company and its stockholders will be enhanced by the adoption of these amendments.

COMMENTS

The net profits for the year were the largest in the company's history. The gain in profit over the previous year was made possible principally by the 40.84% increase in our sales for the year. These sales reflected not only higher food prices but higher purchasing power by consumers as well. Our gross profit or mark-up, in terms of percentage, was the lowest in our history.

We do not feel that food prices will remain at present high levels for a long period and we are keeping our inventory under careful control—consistent with our present volume of sales. Under the so-called Lifo (last-in, first-out) method which we have adopted, warehouse inventories are carried on our books at much lower prices than present market.

Your company has plans for the development of present and additional store and plant facilities. Due to current high construction costs we are proceeding with this expansion on a selective basis, first preference being exercised where the need is greatest and where the return from the investment should prove the most favorable. It is our present belief that these expansion costs will be spread over the next few years and that the company's resources should be sufficient to pay for them.

STOCKHOLDERS

The latest dividend list shows 10,688 common stockholders. These shareholders reside in practically every city and town in New England where our stores are located and throughout the rest of the United States and some foreign countries as well. We have an average of nearly nine stockholder-owners for each store we operate.

The following table shows the number of our common shareholders at various intervals since 1926.

1947	1944	1938	1932	1926
10,688	9,542	9,228	4,607	1,304

We are pleased to record here our thanks and appreciation to our entire organization for their support and cooperation during the past year.

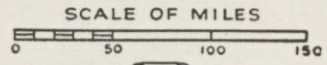
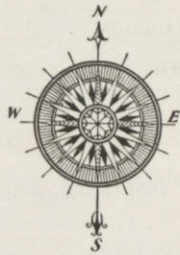
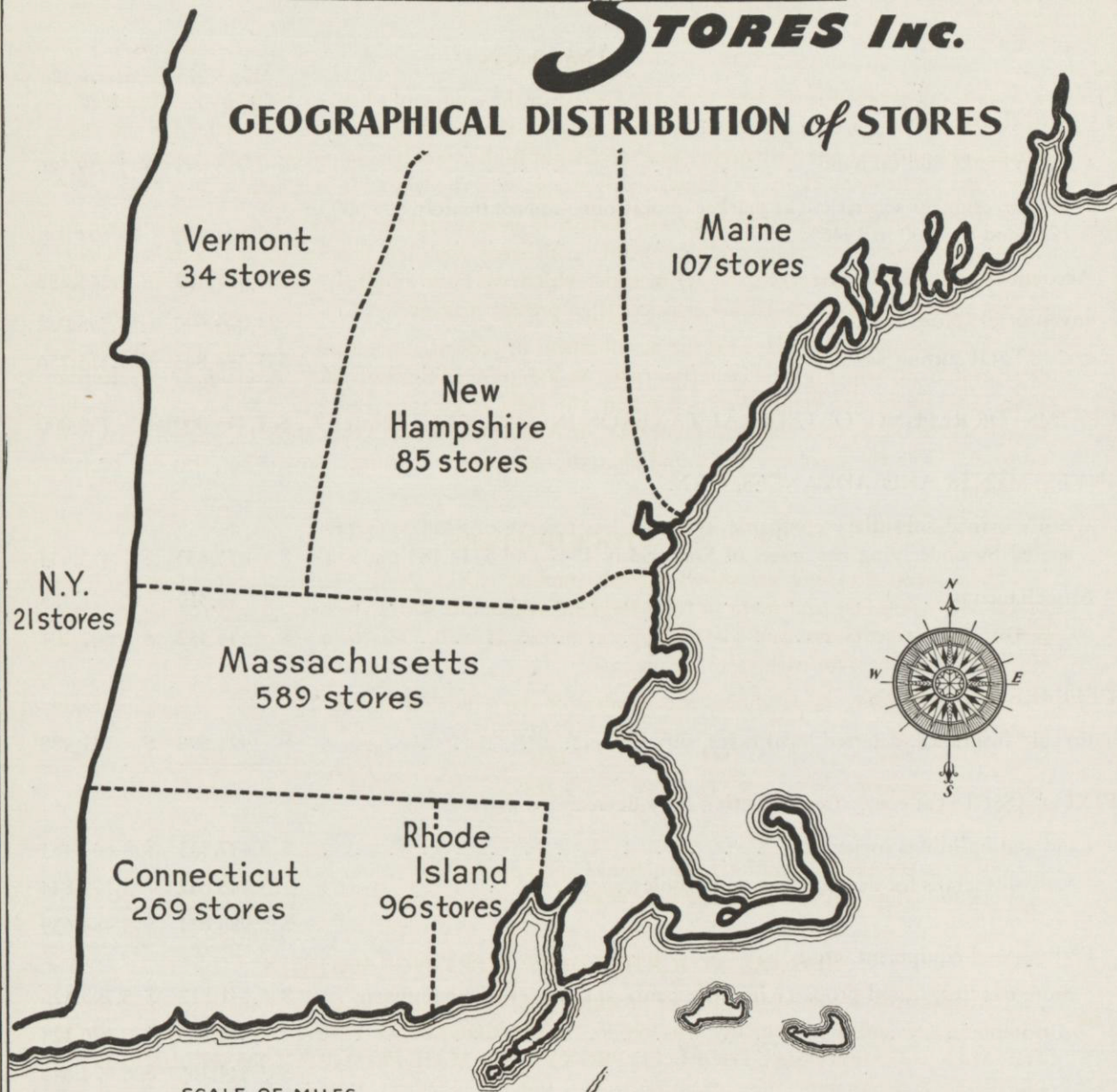
SPECIAL STOCKHOLDERS' MEETING—PROXIES

A notice of a special meeting of Stockholders, (in lieu of our usual annual meeting) proxy statement and proxy accompany this report. STOCKHOLDERS ARE REQUESTED TO SIGN THE MANAGEMENT'S AUTHORIZED PROXY AND MAIL PROMPTLY IN THE ENVELOPE PROVIDED. Your immediate attention to this important matter will be greatly appreciated and will save your Company considerable time and expense.

ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES Inc.

GEOGRAPHICAL DISTRIBUTION of STORES



**Total Number
of Stores**
as of March 29, 1947
1201

FIRST NATIONAL STORES INC.

BALANCE SHEET—MARCH 29, 1947
(With comparative figures as of March 30, 1946)

ASSETS		<i>March 29,</i> 1947	<i>March 30,</i> 1946
CURRENT ASSETS:			
Cash in banks and on hand		\$ 7,758,948	\$ 7,379,586
U. S. Government securities (at market quotations—approximately \$96,500 in 1947 and \$98,500 in 1946)		94,800	94,800
Accounts receivable, less reserve		517,407	1,243,288
Inventories (Note 1)		23,025,690	18,598,082
Total current assets		<u>\$31,396,845</u>	<u>\$27,315,756</u>
CLAIMS FOR REFUNDS OF FEDERAL TAXES ON INCOME—NET (Note 1)		<u>\$ 1,475,000</u>	<u>\$ 750,000</u>
INVESTMENTS AND ADVANCES, ETC.:			
Wholly-owned subsidiary companies—at cost less reserve of \$40,000 (represented by underlying net assets of \$762,058 in 1947 and \$714,183 in 1946)		\$ 475,833	\$ 475,833
Miscellaneous		58,519	71,368
Total investments, etc.		<u>\$ 534,352</u>	<u>\$ 547,201</u>
DEFERRED CHARGES:			
Prepaid insurance, deferred local taxes, supplies, etc.		\$ 923,878	\$ 731,988
FIXED ASSETS (at cost, after deducting fully-depreciated assets):			
Land and buildings owned		\$ 9,437,333	\$ 8,664,483
Less—Reserves for depreciation and obsolescence		3,448,652	3,179,844
		<u>\$ 5,988,681</u>	<u>\$ 5,484,639</u>
Fixtures and equipment, etc.:			
Store fixtures, leased property improvements, machinery and equipment		\$ 6,441,812	\$ 5,798,526
Automobiles		1,082,453	676,123
		<u>\$ 7,524,265</u>	<u>\$ 6,474,649</u>
Less—Reserve for depreciation		3,718,098	3,316,750
		<u>\$ 3,806,167</u>	<u>\$ 3,157,899</u>
Total fixed assets (net)		<u>\$ 9,794,848</u>	<u>\$ 8,642,538</u>
GOODWILL		\$ 1	\$ 1
		<u>\$44,124,924</u>	<u>\$37,987,484</u>

FIRST NATIONAL STORES INC.

BALANCE SHEET—MARCH 29, 1947

(With comparative figures as of March 30, 1946)

LIABILITIES	<i>March 29,</i> 1947	<i>March 30,</i> 1946
CURRENT LIABILITIES:		
Note payable to bank (portion due within one year)	\$ 800,000	\$ 640,000
Accounts payable	6,062,403	4,346,728
Owing to subsidiary companies	285,871	124,528
Accrued local and state taxes and other expenses	2,504,675	2,125,880
Employees' investment certificates	194,160	208,080
Reserve for federal taxes on income (after deducting \$3,446,530 U. S. Treasury Tax Notes on hand in 1947 and \$3,413,410 in 1946)	1,651,402	1,869,748
Total current liabilities	<u>\$11,498,511</u>	<u>\$ 9,314,964</u>
 NOTE PAYABLE TO BANK (installment due after one year)	 \$	 \$ 800,000
 RESERVES:		
Reserve for future payments of past service premiums under retirement annuity plan, less estimated federal income tax savings attributable thereto (Note 4)	\$ 1,885,000	\$
For contingencies	584,600	584,600
Miscellaneous	184,865	217,503
Total reserves	<u>\$ 2,654,465</u>	<u>\$ 802,103</u>
 CAPITAL STOCK AND SURPLUS:		
Common stock—		
Authorized—1,000,000 shares without par value		
Issued—827,634 shares	\$ 6,977,422	\$ 6,977,422
Earned surplus	23,235,669	20,334,138
Together	<u>\$30,213,091</u>	<u>\$27,311,560</u>
Deduct:		
Common stock held in treasury—9,057 shares, at reduced amount carried on books	241,143	241,143
Total capital stock and surplus, less treasury stock	<u>\$29,971,948</u>	<u>\$27,070,417</u>
	<u>\$44,124,924</u>	<u>\$37,987,484</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have examined the balance sheet of First National Stores Inc. as of March 29, 1947 and the statements of profit and loss and earned surplus for the fiscal year ending on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and earned surplus, together with the notes thereto, present fairly the position of First National Stores Inc. at March 29, 1947 and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent (except for the change explained in Note (1) to the financial statements, which we approve) with that of the preceding year.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts
July 31, 1947.

FIRST NATIONAL STORES INC.

STATEMENT OF PROFIT AND LOSS FOR THE FISCAL YEAR ENDING MARCH 29, 1947 (With comparative figures for preceding year)

	<i>Fiscal Year Ending</i>	
	<i>March 29, 1947</i>	<i>March 30, 1946</i>
Sales and revenues:		
Retail store sales (Note 2)	\$256,506,910	\$182,131,241
Interest and dividends received:		
From subsidiaries (Note 3)	18,400
From others	37,237	34,509
	<u>\$256,562,547</u>	<u>\$182,165,750</u>
Costs and expenses:		
Cost of sales, expenses, etc. (exclusive of depreciation)—(Notes 1 and 2)	\$243,514,359	\$173,085,327
Depreciation on fixed assets	997,774	936,823
Interest paid	46,979	65,182
(Gain) or loss on disposition of fixed assets (net)	(38,800)	112,863
Provision for contingencies	250,000
	<u>\$244,520,312</u>	<u>\$174,450,195</u>
	<u>\$ 12,042,235</u>	<u>\$ 7,715,555</u>
Provision for federal taxes on income (including \$3,065,000 for excess profits tax in 1946)	4,600,000	4,830,000
Net profit before appropriation, etc. deducted below	\$ 7,442,235	\$ 2,885,555
(Deduct):		
Excess of approximate cost of replacement of inventories valued on last in, first out basis, involuntarily liquidated in prior years, over the original inventory cost thereof, less estimated refunds of prior years' federal taxes resulting therefrom (Note 1)	(200,000)
Appropriation for future payments of past service liability under employees' retirement plan, less estimated federal income tax savings attributable thereto (Note 4)	(1,885,000)
Balance of net profit transferred to earned surplus	<u>\$ 5,357,235</u>	<u>\$ 2,885,555</u>

STATEMENT OF EARNED SURPLUS FOR THE FISCAL YEAR ENDING MARCH 29, 1947

Earned surplus at March 30, 1946	\$20,334,138
Balance of net profit for the fiscal year ending March 29, 1947, transferred from statement of profit and loss	5,357,235
	<u>\$25,691,373</u>
Deduct—Dividends paid on common stock	2,455,704
Earned surplus at March 29, 1947	<u>\$23,235,669</u>

NOTES TO FINANCIAL STATEMENTS

(1) Merchandise in retail stores was valued at approximate average cost (on the basis of first in, first out) which did not exceed market; other merchandise, materials and supplies (aggregating \$12,360,651 at March 29, 1947 and \$11,275,946 at March 30, 1946) were valued at cost on the basis of last in, first out, or at market where lower in the case of individual items.

Partial replacement has been made of inventories which were involuntarily liquidated in prior years and, as permitted by the Internal Revenue Code, the company has elected to value the items replaced at their original inventory prices. The estimated excess of the cost of items so replaced over their original inventory prices amounted to approximately \$925,000 in 1947 and \$1,000,000 in 1946, resulting in estimated claims for net refunds of federal taxes of \$725,000 and \$750,000 respectively. The net adjustment of \$200,000 for 1947 has been charged to profit and loss, whereas the net adjustment of \$250,000 for 1946 was charged to earned surplus pursuant to an interpretation of the regulations of the Bureau of Internal Revenue.

The use of the last in, first out method and the application of the involuntary liquidation and replacement provisions of the tax law are subject to review and acceptance by the Bureau of Internal Revenue.

(2) Sales to U. S. Government agencies under "set aside" orders, amounting to approximately \$250,000 and \$3,200,000 in the respective years, have been omitted from the figures relating to sales and have been credited to cost of sales.

(3) The net earnings of the subsidiary companies (all wholly-owned and not consolidated) aggregated \$66,275 in 1947 and \$117,445 in 1946.

(4) On July 10, 1947 the Executive Committee of the Board of Directors voted to adopt amendments to the existing employees' retirement plan, which are subject to approval by the stockholders. An appropriation from the net profit for the year ending March 29, 1947 was made to cover the cost of future payments of past service liability, less estimated federal income tax savings attributable to the plan as amended.

